

## Reviw: Business associations as a defensive response to post-communist predatory states

Sorbello. Paolo

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**Book Review:**

**Business Associations as a Defensive Response to Post-Communist Predatory States**

Paolo Sorbello\*

*Building Business in Post-Communist Russia, Eastern Europe, and Eurasia: Collective Goods, Selective Incentives, and Predatory States*, by Dinissa Duvanova, 2013, New York: Cambridge University Press.

This book studies the formation and development of business associations in the post-communist world and the peculiarities that emerge both from historical experiences of other business associations elsewhere and from inherited traditions from the Soviet era. Duvanova is certainly not the first scholar to address business-state relations, but the proposed angle and the findings in the chosen geographical area make it a tremendous contribution to the field. The study of business associations as dependent variables lets Duvanova open the Pandora's Box of varieties of business associations (and capitalism) that emerged from the post-communist transition. Arguably, says Duvanova, business associations determine the type of capitalist economy (p. 8). Tracking back causality, Duvanova's research questions ask what are the determinants of businesses joining associations and what role do they play in the post-communist business environment.

The book is structured in seven chapters. In chapter 1, Duvanova introduces the research questions in contrast to more mainstream theories, showing the originality of the thesis. Going deeper into the essence of the enquiry, in chapter 2, the author clarifies the main difference between the classic theories and this book: the analysis of business-state relations in adverse business environments. In this regard, the main point is to look beyond the traditional calculation of corruption as an outlier among individual business practices. Duvanova argues that, in business environments where corruption is the norm, business associations become the bulwark of business activity, defensive organisations against endemic corruption stemming from regulators, bureaucrats and law enforcement officials.

In chapter 3, Duvanova develops the argument along post-communist lines, in an effort to draw comparisons between different transitional experiences from the Balkans to Central Asia. This qualitative approach, paired to the selection of empirical cases in chapter 5, is a treasure for area studies specialists who look for examples of both business practices in post-communist countries and the attempts, or lack thereof, by business associations to counter the predatory state. While the classic understanding of a predatory state stops at the simple dichotomy between the maximisation of the government profits and the welfare of its citizens, here Duvanova dissects two main characteristics of the adverse business environment typical of predatory states. There is a difference, the author argues, between the cost of corruption and the cost of regulation. Sometimes, regulation can be more costly than bribes (p. 21). A state can thus become predatory by imposing regulations so strict that it gives an incentive for corrupt practices to circumvent them.

In between, lies chapter 4, which addresses Duvanova's attempt to generalise the argument into a large-N sample. Here, the quantitative approach is marred by difficulties in measuring informal practices, such as corruption, and patchy data. Perceptions, such as the ones recorded by anti-corruption lobby group Transparency International, and analyses of democratic progress, as devised by Freedom House, are the benchmarks against which Duvanova tests the empirical data. The extent of the quantitative study in the book, however, is vast and tries to encompass a large amount of variables, from industry-specific constraints to ownership. The key overall finding is consistent with the thesis that joining a business association is a firm's response to increasing costs of corruption (p. 116).

\* E-mail: [paolo.sorbello@gmail.com](mailto:paolo.sorbello@gmail.com)

Chapter 6 tries to combine the quantitative approach to two alternative methods of membership into business associations, voluntary and compulsory. The state-centered compulsory model, Duvanova finds, 'creates no benefits that would reduce the cost of regulatory compliance' (p. 178) and is a model that several post-communist countries have driven away from during the transition. Importantly, in this chapter Duvanova addresses the dichotomy between capital and labor. The author gives little attention to this dynamic because a number of studies have demonstrated the lack of organised conflict between labor organisations and businesses. Again, Duvanova argues that in post-communist countries conflict would still play out between labor and the predatory state, not the employer (p. 193).

In chapter 7 the author sums up the findings, linking the defensive role of business associations to invasive regulatory regimes and corrupt practices hindering economic activity. Here too, Duvanova uses the book's argument to challenge a widespread view in academic studies, i.e. that business associations are rent-seeking lobby groups, a corporatist obstacle to the free market economy. Instead, Duvanova's thesis demonstrates that business associations emerge because of 'the pre-existing state's failure to provide essential public goods' (p. 207).

For Duvanova, post-communist states showcase a peculiar type of business organisation, that forms and becomes socialised as a 'defensive organisation' (p. 12), rather than an industrial or regional lobby group. This is the central finding in the book, which successfully challenges some of the most prominent theories of organisations and public choice as developed in Western capitalist societies.

Mancur Olson's *The Rise and Decline of Nations* was a trailblazer in singling out a negative relationship between the formation of interest groups and economic growth. Duvanova's argument, after careful case studies, stands at the opposite side of the spectrum, because the defensive nature of post-communist business associations has become the catalyst of growth-despite-the-state, by reducing transaction costs and improving access to information (p. 203). Without business associations, surveyed owners told Duvanova, companies would be at the mercy of post-communist predatory state practices. The author repeatedly puts emphasis on this point, pushing forward the argument that business associations could be not just facilitators of the development of market economy in transition states, but also catalysts for democratic alternatives (p. 205). This claim, practically unsubstantiated, is too much of an inference, which betrays the author's favorable attitude towards business associations.

Duvanova's research concentrates on Russia, Ukraine, Kazakhstan and Croatia during the 15 years after independence. In this sense, the author is coherent in choosing the cases and justifies the choice because business-state relations were still work-in-progress in these countries. With hindsight, one could also argue that in some of the cases, a choice was made to shape and describe business state relations clearly, making them 'fit the normal', whereas in other cases, business-state relations were artificially kept as 'in transition' in an effort to justify the ad hoc and varied approach to solving regulatory disputes between the public and the private.

In essence, the author seems to devote most of the attention to Russia and Ukraine, which almost monopolise the book's first-hand accounts. Furthermore, when addressing post-communist experiences, the author fails to make a full account of other case studies, from the South Caucasus to Eastern Europe, from the less-developed business environments of the rest of Central Asia, to the West-like examples in the Baltics. The book could have also benefitted from mentions or comparisons with other transitional experiences, beyond the Euro-Asian post-communist region. Possibly, however, the bits that Duvanova left unexplored can serve to foster the scholarship and complete the puzzle of the role business association in countries that experienced systemic transition, endemic corruption and inconsistent rule of law.

Duvanova fails to address the issue of post-communist privatization, which in the book was only partially reversed in at least two of the cases picked by the author and in a theoretical caveat (pp. 123-124). The energy and power generation sectors in Russia and Kazakhstan make two crucial examples.

Duvanova circumvented this shortcoming by looking mostly into small and medium enterprises, which, by number, represent the vast majority of business association members and drive their *raison d'être*. Large firms, according to Duvanova, are less likely to join business associations, perhaps because of their close ties with the governments. Without considering or clearly distinguishing non-private enterprises, Duvanova gives a partial picture of business relations in post-communist countries. While acknowledging the partiality of this study, the author does not mention this particular aspect.

Another under-explored aspect of business associations in Duvanova's book is the role of personalities in advancing the organisation's agenda and liaising with the regulators. Duvanova hints at this particular point (p. 77), but fails to consistently address it throughout the study.

In the quantitative empirical analysis, Duvanova acknowledges the partiality of some of the data available, but refrains from exploring the endemic partial focus of figures such as those elaborated in the World Bank's Doing Business rankings. A few, poignant articles (see for example Schueth) have addressed how post-communist countries have adjusted *de facto* their regulatory frameworks to fit the World Bank's prescriptions, while in reality maintaining informal mechanisms of doing business.

Duvanova's work deserves praise for shifting the academic debate away from the 'normal' understanding of business associations as lobby groups. Public choice scholars can now find in this book a stepping stone to go beyond monolithic arguments that focused mostly on Western capitalist experiences. And Duvanova's contribution, bringing forward the experience of post-communist transition(s) sheds light on alternative explanations of collective efforts against predatory states. *Building Business* is a well-presented and original contribution to the literature, which will indubitably lead more scholars to test further the validity of Duvanova's argument both within and beyond post-communist cases.

A final suggestion to the publisher is due. The wordy title uses traditional and somewhat misleading disciplinary clichés, but fails to name the central subject of the book, business associations. Because of the sparse literature on the matter, it could have been worth focusing the title more around post-communist business associations and what the author finds as their main counterpart, i.e., predatory states.

## References

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**Paolo Sorbello** is a PhD candidate at the Centre for Russian, Central and East European Studies, University of Glasgow, UK. Previously, he worked as Business News Editor for The Conway Bulletin, a weekly newspaper focusing on Central Asia and the South Caucasus.